

PERAC AUDIT REPORT



Worcester Regional Contributory Retirement System

JAN. 1, 2005 - DEC. 31, 2006



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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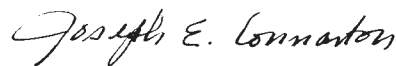
February 20, 2008

The Public Employee Retirement Administration Commission has completed an examination of the Worcester Regional Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2005 to December 31, 2006. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Richard Ackerson who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Pension Fund:

As of 12/31/2006 the Pension Fund had a negative balance of \$12.5M. This has been an issue for several years. Fund transfers have been made to resolve the situation; however, the amounts have not been sufficient to maintain a positive balance.

Recommendation:

The Board must ensure the Pension Fund always has a positive balance. They must review the balance at year-end and make any necessary transfers before year-end closing.

Board Response:

The Board is aware that this issue is not uncommon as a result of early retirement incentives when payment of current benefits exceeds appropriations received and 3(8)(c) reimbursements. This resulted in the accounting negative balance. The appropriate transfer will be made from the Pension Reserve Fund to the Pension Fund at the 2007 year-end closing.

2. Board Member Attendance:

A review of meeting attendance by Board members revealed a member missed 50% of meetings held each year. The result is an attendance rate for a Board member that was well below the seventy-five percent minimum considered reasonable for each of the two years evaluated.

Recommendation:

Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. The Board should consider adjusting the schedule of Board meetings in order to better accommodate its members. The stipend for Board members should be contingent upon regular attendance and participation at the monthly Board meetings. In extreme conditions, it may be necessary to take appropriate action with members who fail to maintain minimum attendance requirements.

Board Response:

The member cited had been a dedicated veteran member of the Board whose wisdom and experience were valued. He chose not to seek re-election when his term expired December 31, 2007.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

		AS OF DECEMBER 31,	
		2006	2005
Net Assets Available for Benefits			
Cash		\$6,339,415	\$6,143,239
Short Term Investments		3,360,674	1,172,315
Fixed Income Securities		29,076,504	30,422,597
Equities		18,854,120	16,386,915
Pooled Short Term Funds		0	0
Pooled Domestic Equity Funds		238,531,806	243,340,727
Pooled International Equity Funds		57,788,054	35,612,829
Pooled Alternative Investment Funds		7,251,509	6,315,450
Pooled Real Estate Funds		34,960,400	13,683,192
Interest Due and Accrued		274,457	299,222
Accounts Receivable		1,460,227	1,408,036
Accounts Payable		(726,002)	(414,109)
Total		<u>\$397,171,164</u>	<u>\$354,370,413</u>
Fund Balances:			
Annuity Savings Fund		\$147,377,297	\$135,686,174
Annuity Reserve Fund		39,891,035	39,190,832
Pension Fund		(12,512,951)	(2,726,285)
Military Service Fund		40,699	26,059
Expense Fund		0	0
Pension Reserve Fund		<u>222,375,085</u>	<u>182,193,633</u>
Total		<u>\$397,171,164</u>	<u>\$354,370,413</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2005)	\$123,154,316	\$39,961,419	\$(28,047,432)	\$24,146	\$0	\$201,543,696	\$336,636,146
Receipts	19,179,806	1,164,485	23,534,250	2,653	2,599,055	13,675,357	60,155,606
Inter Fund Transfers	(2,995,397)	2,998,776	33,022,780	(740)	0	(33,025,419)	0
Disbursements	(3,652,552)	(4,933,849)	(31,235,882)	0	(2,599,055)	0	(42,421,338)
Ending Balance (2005)	135,686,174	39,190,832	(2,726,285)	26,059	0	182,193,633	354,370,413
Receipts	20,350,754	1,177,861	23,838,046	14,640	3,048,272	40,183,495	88,613,069
Inter Fund Transfers	(5,043,875)	5,059,277	(13,358)	0	0	(2,043)	(0)
Disbursements	(3,615,756)	(5,536,935)	(33,611,355)	0	(3,048,272)	0	(45,812,317)
Ending Balance (2006)	<u>\$147,377,297</u>	<u>\$39,891,035</u>	<u>(\$12,512,951)</u>	<u>\$40,699</u>	<u>\$0</u>	<u>\$222,375,085</u>	<u>\$397,171,164</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005
Annuity Savings Fund:		
Members Deductions	\$17,508,276	\$16,236,987
Transfers from Other Systems	1,716,428	1,252,399
Member Make Up Payments and Re-deposits	193,698	626,302
Member Payments from Rollovers	142,564	340,298
Investment Income Credited to Member Accounts	<u>789,788</u>	<u>723,820</u>
Sub Total	<u>20,350,754</u>	<u>19,179,806</u>
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	<u>1,177,861</u>	<u>1,164,485</u>
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems	948,406	700,537
Received from Commonwealth for COLA and Survivor Benefits	1,332,452	2,246,839
Pension Fund Appropriation	<u>21,557,189</u>	<u>20,586,875</u>
Sub Total	<u>23,838,046</u>	<u>23,534,250</u>
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	14,500	0
Investment Income Credited to the Military Service Fund	<u>140</u>	<u>2,653</u>
Sub Total	<u>14,640</u>	<u>2,653</u>
Expense Fund:		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	<u>3,048,272</u>	<u>2,599,055</u>
Sub Total	<u>3,048,272</u>	<u>2,599,055</u>
Pension Reserve Fund:		
Federal Grant Reimbursement	53,065	45,209
Pension Reserve Appropriation	0	0
Interest Not Refunded	36,814	30,815
Miscellaneous Income	108,837	6,084
Excess Investment Income	<u>39,984,779</u>	<u>13,593,250</u>
Sub Total	<u>40,183,495</u>	<u>13,675,357</u>
Total Receipts	<u>\$88,613,069</u>	<u>\$60,155,606</u>

STATEMENT OF DISBURSEMENTS

		FOR THE PERIOD ENDING DECEMBER 31,	
		2006	2005
Annuity Savings Fund:			
Refunds to Members		\$2,107,812	\$2,013,203
Transfers to Other Systems		<u>1,507,944</u>	<u>1,639,349</u>
	Sub Total	<u>3,615,756</u>	<u>3,652,552</u>
Annuity Reserve Fund:			
Annuities Paid		5,413,627	4,877,571
Option B Refunds		<u>123,307</u>	<u>56,278</u>
	Sub Total	<u>5,536,935</u>	<u>4,933,849</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments		25,122,949	24,187,800
Survivorship Payments		1,456,075	1,416,383
Ordinary Disability Payments		350,822	281,553
Accidental Disability Payments		3,888,592	3,606,715
Accidental Death Payments		700,670	666,605
Section 101 Benefits		192,823	184,149
3 (8) (c) Reimbursements to Other Systems		<u>1,899,424</u>	<u>892,676</u>
	Sub Total	<u>33,611,355</u>	<u>31,235,882</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds		<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend		15,000	14,000
Salaries		401,367	376,958
Legal Expenses		13,378	6,253
Travel Expenses		1,334	3,079
Administrative Expenses		76,646	68,471
Furniture and Equipment		31,530	24,072
Management Fees		2,276,749	1,845,052
Custodial Fees		129,308	155,553
Consultant Fees		70,000	70,000
Fiduciary Insurance		<u>32,961</u>	<u>35,616</u>
	Sub Total	<u>3,048,272</u>	<u>2,599,055</u>
Total Disbursements		<u>\$45,812,317</u>	<u>\$42,421,338</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005
Investment Income Received From:		
Cash	\$228,483	\$128,510
Short Term Investments	150,474	172,132
Fixed Income	1,882,274	1,571,310
Equities	210,687	1,955,456
Pooled or Mutual Funds	3,821,403	1,773,402
Commission Recapture	0	0
Total Investment Income	<u>6,293,321</u>	<u>5,600,810</u>
Plus:		
Realized Gains	10,840,423	12,231,675
Unrealized Gains	48,274,095	182,113,623
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>274,457</u>	<u>299,222</u>
Sub Total	<u>59,388,975</u>	<u>194,644,519</u>
Less:		
Paid Accrued Interest on Fixed Income Securities	(410,175)	(131,227)
Realized Loss	(3,405,741)	(13,910,598)
Unrealized Loss	(16,566,317)	(167,801,106)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(299,222)</u>	<u>(319,136)</u>
Sub Total	<u>(20,681,455)</u>	<u>(182,162,067)</u>
Net Investment Income	<u>45,000,840</u>	<u>36,083,262</u>
Income Required:		
Annuity Savings Fund	789,788	723,820
Annuity Reserve Fund	1,177,861	1,164,485
Military Service Fund	140	2,653
Expense Fund	<u>3,048,272</u>	<u>2,559,055</u>
Total Income Required	<u>5,016,061</u>	<u>4,490,013</u>
Net Investment Income	<u>45,000,840</u>	<u>36,083,262</u>
Less: Total Income Required	<u>5,016,061</u>	<u>4,490,013</u>
Excess Income To The Pension Reserve Fund	<u>\$39,984,779</u>	<u>\$13,593,250</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2006			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$6,339,415	1.6%	
Short Term	3,360,674	0.8%	
Fixed Income	29,076,504	7.3%	40-80%
Equities	18,854,120	4.8%	45%**
Pooled Domestic Equity Funds	238,531,806	60.2%	45%**
Pooled International Equity Funds	57,788,054	14.6%	5%**
Pooled Alternative Investment Funds	7,251,509	1.8%	
Pooled Real Estate Funds	34,960,400	8.8%	5%**
Grand Total	<u>\$396,162,482</u>	<u>100.0%</u>	

**At time of purchase

For the year ending December 31, 2006, the rate of return for the investments of the Worcester Regional Retirement System was 13.05%. For the five-year period ending December 31, 2006, the rate of return for the investments of the Worcester Regional Retirement System averaged 6.74%. For the twenty-two year period ending December 31, 2006, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Worcester Regional Retirement System was 9.74%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Worcester Regional Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

March 28, 2007

21.01 For the sole purpose of the Worcester Regional Retirement Board's investment in the Attalus Multi Strategy Fund, Ltd., the provisions of 840 CMR 21.01(1), 21.01(2), 21.01(3), 21.01(5), and 21.01(6) shall not apply.

March 28, 2007

21.01 For the sole purpose of the Worcester Regional Retirement Board's investment in the EnTrust Capital Diversified Fund, the provisions of 840 CMR 21.01(1), 21.01(2), 21.01(3), 21.01(5), and 21.01(6) shall not apply.

March 21, 2006

19.01(6) Notwithstanding the provisions of Public Employee Retirement Administration Commission regulations, the Worcester Regional Retirement Board may invest funds of the Worcester Regional Retirement System (the "System") in the fund known as AEW Partners V, L.P. ("the Fund"), and while the funds of the System are so invested, the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq.; the System's interest in the Fund but not any of the underlying assets of the Fund; provided that, at all times, the Fund qualified as a "venture capital operating company" or "real estate operating company" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations promulgated there under. The Limitations and restrictions of 840 CMR Section 19.01(6) shall not apply to the Fund for the two-year period commencing on the date of the Fund's initial investment.

June 13, 2001

16.08 In accordance with PERAC Investment Guideline 99-2, the Worcester Regional Retirement System is making a modification to its fixed income mandate with Wellington Management Company. The assets in its "core bond plus" separate account are being transferred to Wellington's Core Bond Plus Commingled Investment Fund. The transfer involves absolutely no change in the investment team and its strategy and is being done solely for greater operational efficiency and slightly lower management fees

December 27, 2000

16.08 The Worcester Regional Retirement System may invest in Zero Stage Capital VII, L.P. in accordance with Investment Guideline 99-3. The System has had a satisfactory relationship with Zero Stage Capital in its previous two partnerships and the new commitment is consistent with accomplishing its target asset allocation to alternative investments.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

June 20, 1997

20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 10% of the fixed income portfolio valued at market and including Yankee Bonds which shall be limited to 10% of the total fixed income portfolio valued at market.

May 6, 1997

20.07(9) Commingled real estate shall not exceed 5% of the total book value of the portfolio at the time of purchase provided that:

- (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process, and
- (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

February 15, 1996

20.06(10) Private Placement securities falling under the governance of Rule 144A may be purchased up to 5% of the market value of the fixed income portfolio at the time of purchase. These Rule 144A Private Placements shall be considered to be corporate bonds and, as such, governed by guideline constraints, with respect to credit and concentration limits, similar to those that apply to corporate bonds in general.

January 25, 1996

840 CMR 21.00: Prohibited Investments

(3) Futures Contracts other than as follows:

- (a) Forward Currency Contracts may be written against securities in the international portfolio by an investment advisor registered under the Investment Advisors Act of 1940 and who has been granted a waiver from PEAR for international investments.
- (b) Forward Currency Contracts may be written against securities in the international portfolio to a maximum of twenty-five percent (25%) of the international portfolio's non-dollar holdings as market value. Speculative currency positions unrelated to underlying portfolio holdings are strictly prohibited.

April 26, 1995

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 6% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of CCC as rated by the Standard & Poors Corporate and Municipal Rating Service.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 6% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of CCC as rated by the Standard & Poors Corporate and Municipal Rating Service.

October 20, 1994

20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 10% of the portfolio valued at market.

20.04(6) The board may invest in obligations issued by foreign corporations and in obligations issued and guaranteed by foreign governments.

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 5% of the market value of the total portfolio may be invested in bonds with a minimum quality rating of Ba or equivalent as rated by one or more recognized bond rating services.

20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 5% of the market value of the total portfolio may be invested in bonds with a minimum quality rating of Ba or equivalent.

September 29, 1994

20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% the total market value of the portfolio at the time of investment, shall be considered a separate asset class, and provided further that:

(a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PEAR to determine the appropriate course of action;

(b) such personnel retain authority in the decision making process, and

(c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.

20.90(2) Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in the United States

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

20.09(3) All venture capital investment shall be made in companies which have their principal places of business in the United States.

September 24, 1994

20.07(9) Commingled real estate shall not exceed 5% of the total book value of the portfolio at the time of purchase provided that:

(a) The retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PEAR to determine the appropriate course of action;

(b) Such personnel retain authority in the decision making process, and

(c) Should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

September 8, 1993

20.03(1) Equity investments shall not exceed 45% of the portfolio valued at market, including international equities which shall not exceed 5% of the portfolio valued at market.

20.04(1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

June 30, 1992

20.04(6) American Depositary Receipts denominated in U.S. currency and listed on a United States stock exchange or traded over the counter in the United States, provided that the total of all such investments not exceed 5% of the market value of the portfolio.

October 30, 1991

16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one year .08% of the value of the fund.

August 21, 1991

18.02(4) *Rate of Return.* A statement of the rate of return objective for the entire portfolio which shall be, at a minimum, a compound annual five year rate of return which exceeds the actuarial assumed rate for the retirement system.

20.03(1) Equity investments shall not exceed 45% of the total book value of the portfolio at the time of purchase.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Worcester Regional Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$648.48 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Worcester Regional Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee retirement Administration Commission on:

December 28, 1994

1. Membership:

All part-time employees who work at least twenty hours per week (1040) within the calendar year must join the Worcester County Retirement System.

2. Creditable Service:

Elected members of water district are allowed one full year of creditable service for each calendar year served as an elected official.

Call firefighters - when earnings are \$225 per year or more, then 4 months of creditable service is allowed for each calendar year, but only if such firefighter is later appointed as a permanent member of the fire department pursuant to G. L. c. 32, §.4(2)(b).

Cafeteria - (6) Six hours per day is considered a full day. The Retirement Board will allow full year service to include summer months off. If a cafeteria employee works less than 6 hours per day, 5, 4, or 3 hours per day, then service is prorated and based on a 6 hour full day and creditable service is allowed at 83%, 66% or 50% of full 12 months.

Librarians - If a librarian works all of the hours the library is open, that being 20 hours or more per week, then the Retirement Board will allow full creditable service. If a member works part-time and not the full hours of the library, then such hours worked will be prorated against the hours the library is opened.

Part-time Police Work - Use hourly rate to determine hours worked based on 37 hours per week being full-time. All other part-time employees will have their time prorated, using 35 hours week as full time.

Free Prior Service (Before 7/1/47) or Date of Charter - \$50.00 per month equals (1) one month of creditable service.

School Employees - Full time employees working during the school year receive (1) full year of creditable service.

January 26, 1993

“At a meeting of the Worcester County Retirement Board, a vote was taken to accept only teacher aides, who are employed for 1,040 hours or more per year.”

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Chairman, who shall be elected by the other four board members, a second member elected by the Advisory Council, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Chairman:	Roger R. Dubois	Term Expires:	12/31/08
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Advisory Council Member:	Joann M. Sharp	Term Expires:	12/31/09
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Elected Member:	Open	Term Expires:	
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Elected Member:	Robert R. Cleary	Term Expires:	12/31/07
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Appointed Member:	Carol A. Baron	Term Expires:	12/31/09
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The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex-officio Member:)	\$50,000,000 Fiduciary
Elected Member:)	\$1,000,000 Crime/Employee Dishonesty
Appointed Member:)	Travelers, AIG, ARCH
Staff Employee:)	

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants as of January 1, 2007.

The actuarial liability for active members was	\$353,391,564
The actuarial liability for retired and active members was	<u>339,376,761</u>
The total actuarial liability was	692,768,325
System assets as of that date (actuarial value) were	<u>389,758,785</u>
The unfunded actuarial liability was	<u>\$303,009,540</u>
 The ratio of system's assets to total actuarial liability was	 56.3%
As of that date the total covered employee payroll was	\$211,518,755

The normal cost for employees on that date was 8.30% of payroll

The normal cost for the employer was 3.40% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.50% per annum varies by year
 Rate of Salary Increase: Ultimate rate of 4.75% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2007

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2007	\$389,758,785	\$692,768,325	\$303,009,540	56.3%	\$211,518,755	143.3%
1/1/2004	\$350,879,900	\$552,773,549	\$201,893,649	63.5%	\$170,669,442	118.3%
1/1/2001	\$316,389,108	\$426,280,953	\$109,891,845	74.2%	\$145,000,347	75.8%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Retirement in Past Years										
Superannuation	107	103	11	103	94	112	232	107	64	96
Ordinary Disability	2	3	1	2	0	4	1	0	2	3
Accidental Disability	11	12	0	3	9	9	6	6	5	11
Total Retirements	120	118	12	108	103	125	239	113	71	110
Total Retirees, Beneficiaries and Survivors	2,708	2,850	2,829	2,763	2,884	2,931	3,017	3,015	3,023	3,012
Total Active Members	5,903	5,676	6,200	5,887	6,391	6,496	6,340	6,690	6,907	7,117
Pension Payments										
Superannuation	\$13,123,663	\$13,916,507	\$14,905,909	\$16,148,872	\$17,042,113	\$18,268,552	\$22,220,187	\$23,744,032	\$24,187,800	\$25,122,949
Survivor/Beneficiary Payments	1,117,719	1,099,847	1,040,577	1,203,075	1,230,565	1,409,371	1,304,701	1,312,631	1,416,383	1,456,075
Ordinary Disability	278,727	330,671	298,989	313,393	312,094	303,288	283,429	272,797	281,553	350,822
Accidental Disability	2,335,789	2,557,369	2,659,421	2,731,726	2,851,865	3,009,079	3,197,795	3,399,482	3,606,715	3,888,592
Other	<u>2,118,495</u>	<u>2,310,657</u>	<u>1,069,341</u>	<u>1,090,801</u>	<u>1,207,712</u>	<u>1,155,262</u>	<u>1,498,278</u>	<u>1,608,781</u>	<u>1,743,430</u>	<u>2,792,917</u>
Total Payments for Year	<u>\$18,974,393</u>	<u>\$20,215,051</u>	<u>\$19,974,238</u>	<u>\$21,487,868</u>	<u>\$22,644,350</u>	<u>\$24,145,552</u>	<u>\$28,504,390</u>	<u>\$30,337,723</u>	<u>\$31,235,882</u>	<u>\$33,611,355</u>

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